700th RESTAURANT · 200th MOTOR LODGE

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WORLD'S LARGEST HOWARD JOHNSON'S RESTAURANT AT 42nd STREET AND LEXINGTON AVENUE · NEW YORK CITY

FRANKFORTS
CLAM CHOWDER
3D BURGERS
HAMBURGERS
CHOCOLATE
BUTTERSCOTCH
FUDGE CAKE
VANILLA
BLACK RASPBERRY
LIME SHERBET

HOWARD JOHNSON COMPANY 1964 ANNUAL REPORT

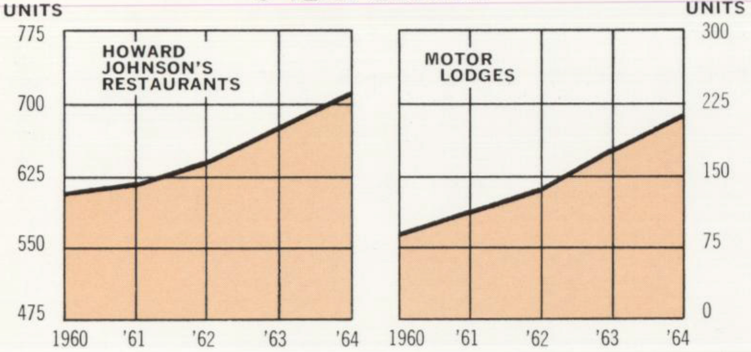
200
Dallas welcomes
HOWARD JOHNSON'S
200th Motor Lodge

Howard Johnson Company

FINANCIAL HIGHLIGHTS

	1964	1963
Total Income	$152,798,451	$127,105,572
Income Before Federal Income Taxes	14,078,845	10,941,818
Federal Income Taxes	6,470,000	5,550,000
Net Income	7,608,845	5,391,818
Net Income Per Share (Based on the number of shares outstanding at the end of the year—1963 adjusted to give effect to 1964 stock dividend)	$3.30	$2.35
Depreciation Charges	4,529,683	3,514,826
Additions to Fixed Assets	10,597,514	10,556,066
Working Capital at December 31	12,948,770	9,179,774
Ratio of Current Assets to Current Liabilities at December 31	2.0	1.8

Howard B. Johnson brands the chain's 200th motor lodge in Dallas, Texas, together with William J. Boykin, licensee operator.



5 YEAR GROWTH

PRESIDENT'S REPORT

We take particular pride in presenting this report to you on the activities and services of the Howard Johnson Company during 1964.

Just four years ago we became a publicly-owned enterprise. Our objective was to become a truly national organization, a coast-to-coast operation of restaurants and motor lodges, offering hospitality to millions of travelers. The year 1964 proved to be an important milestone on the path to this objective.

It was an outstanding year. Total income increased from $127,105,572 in 1963 to $152,798,451 in 1964, a 20% improvement in our business.

Net income rose from $5,391,818 in 1963 to $7,608,845 in 1964, a 41% rise in earnings. Net income per share in 1964 was $3.30, as compared to $2.35 for 1963, adjusted for the 1964 stock dividend. The Company paid a two percent stock dividend in 1964 as in 1963.

During the year more than $10,500,000 was spent for additions to fixed assets. It is expected that at least as much will be spent in this area during 1965.

At year's end, 708 Howard Johnson's restaurants were in operation, 45 more than were operating at the close of 1963, and 38 new restaurants were under construction.

During the past year, the trend toward Company-operated restaurants was accelerated to a point where, for the first time in our history, the number of Company-operated facilities exceeded those owned by licensee operators — 372 Company-operated and 336 licensee-operated.

At the close of 1964, 210 motor lodges were in operation, 209 licensee-operated and 1 Company-operated, 42 more than a year earlier. As of December 31, 1964, 28 new motor lodges were being built, two of which will be Company-operated. High-rise structures in selected metropolitan locations continue to be an important part of our motor lodge expansion program.

The substantial increase reported in total income is attributable to a number of factors. In addition to the newly constructed motor lodges and restaurants, many existing installations were expanded. As part of the Company's renovation program to keep units updated, 92 restaurants in the chain were modernized.

An unequivocal factor toward our prosperous year was the untiring efforts of Howard Johnson's employees who, in addition to remarkable work performance, welcomed training and educational programs which prepared them to better serve our guests. During the year we strengthened our management staff and enjoyed great depth of qualified personnel.

The ever increasing demand for Howard Johnson's famous "28 flavors" and other fine Company processed food products served in our restaurants kept our production plants working at full capacity. Production capability was increased with the modernization and expansion of facilities in Chicago, Miami, and Queens Village, L.I., New York.

The first phase of our Western expansion was completed with the signing of an agreement to build a Howard Johnson's Restaurant and Motor Lodge in Southern California. Located in Anaheim, opposite world famous Disneyland, the new complex will consist of a 2-story 100-room motor lodge with a 169-seat restaurant adjacent to it. In the immediate future a 10-story motor lodge will be erected on the adjoining premises. In all, agreements were finalized for the construction of 7 restaurants and 3 motor lodges in the greater Los Angeles area.

An Executive Operations Committee was formed during the first part of the year. Composed of division heads under the direction of the President, the committee met monthly for the purpose of coordinating the various divisions of the Company and determining long-range operating policies.

The projected demand for our wholesale products indicated that we organize a new Wholesale Food Division to improve coordination of the distribution and sales of Howard Johnson's frozen products, canned goods, and ice cream to supermarkets and grocers. Although our wholesale business at present accounts for only a small part of the total income, we are steadily improving our position in this highly competitive area.

Looking to the future, and the need for additional qualified executives, the "Assistant to the President" program was introduced in 1964. This program, designed to acquaint junior executives with the overall scope of operations of the Company, provided an intensive two-week program personally directed by the President and literally gave them a view from the "top".

Realizing that our 15,000 Company employees are valuable assets necessary for our continuing success, we reevaluated our employee relations program. One of the tangible benefits resulting from this study was a substantial increase in the amount of health insurance made available to all Howard Johnson's employees, at no cost to them. In addition, we instituted the "Spotlight on You" Program. "Spotlight" is designed to reward employees for exceptional acts of service to the public and as a result improve *Esprit de Corps.* This program, open to all employees, Company and licensee alike, has proved successful and will be continued.

We are indeed sorry to report the death in 1964 of Walter M. Giblin, one of our Directors and a partner of Giore, Forgan & Co. The Board of Directors elected Fred Smith, Consultant to Laurance S. Rockefeller, to take the place of Mr. Giblin.

At the annual stockholders meeting in 1964, Eugene J. Durgin, Vice President and Secretary of the Company, was elected a Director to replace Howard D. Johnson, who is now serving the Company in an advisory and consultative capacity.

Although we made impressive gains in terms of total income, net income and expanded facilities, competition was keener than ever before. The cost of raw materials and labor rose noticeably. It is anticipated that operating and production costs will rise still further in 1965.

Looking to 1965, the Officers and Directors join with our employees and licensee operators in anticipating another successful year for Howard Johnson's.

We wish to extend our sincere appreciation to our over 10,000 stockholders for their continued support and interest in "Host of the Highways."

Sincerely,

Howard B Johnson

Howard B. Johnson
PRESIDENT

Executive Operations Committee.

Restaurant Division

A MILESTONE — OUR 700th IN 1964

New Howard Johnson's Restaurants were opened at the rate of more than one every week during 1964.

We continue to increase the proportion of Company-operated to licensee-operated restaurants. Of the 708 restaurants in operation at year's end in 34 states, Nassau, and the District of Columbia, 372 were Company-operated and 336 were licensee-operated.

Activity in the restaurant division for 1964 is shown below:

	Number of Restaurants		
	Company-operated	Licensee-operated	Total
December 31, 1963	325	338	663
Opened	44	12	56
Acquired from Licensees	8	(8)	—
Closed	(5)	(6)	(11)
December 31, 1964	372	336	708

At year's end, 38 restaurants were under construction in 17 states. Upon completion, 35 will be Company-operated and 3 licensee-operated.

The mid-western region continued to be a prime target for expansion, and our Stroud, Oklahoma distribution center was enlarged and is ready to service the increased number of restaurants opening in this area.

In 1963 it was decided to "surround" rather than "enter" the New York World's Fair by constructing permanent installations on main routes leading into New York. The decision proved to be a sound one.

Increased sales were realized in new units and existing restaurants on the roads funnelling into the City. The New Jersey Turnpike locations, particularly, realized a dramatic gain in sales, and much of this increase was attributed to travelers going to and from the Fair.

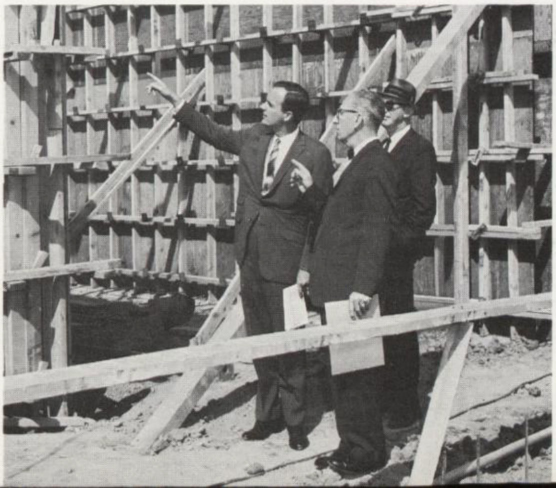
"Lamplighter" rooms or cocktail lounges were added to 18 existing restaurants, both Company-operated and licensed. These rooms offer our guests leisurely dining in a relaxed atmosphere created with carpeted floors, wood paneled walls, distinctive paintings, and comfortable furnishings. Remodeling and redecorating was completed in 92 restaurants, both Company and licensee-operated.

Restaurant sales were stimulated during normally slow seasons by a new regional cooperative advertising program.

The first regional cooperative advertising program was launched in January 1964 in the Northeast with all restaurants participating. Because of its success, other regions joined in this concentrated program.

Modern management requires active participation

HOWARD JOHNSON'S
HJ 700



This intensive undertaking was made possible through the cooperative efforts of both licensee and Company-operated restaurants. The restaurants in each region contributed equitably, based on the previous year's sales. The funds remained under the control of each region for local committee application to advertising programs tailored for the region.

Through this mutual effort it was possible to utilize full page, 4-color ads in regional editions of national magazines. This was "sell" advertising, featuring timely "specials", along with the menu price, at a time of year when sales stimulation was most needed. To supplement these regional advertising campaigns, other media including radio, television, newspapers and outdoor billboards carried the Howard Johnson's special message to the local public. Promotional materials were coordinated with the advertising to provide full impact.

It is important to note the human relations aspect of this program. Licensee operators acquired more harmonious relationships with each other as well as with Company representatives through active participation in each promotion.

A similar advertising program is planned for 1965 with all Restaurant Divisions participating.

Design and Decor

In order to stay ahead of our competitors and maintain our position as the "world's largest roadside restaurant chain" we must make sure our facilities are as appealing to the guests as are our fine products. Restaurant design and decor are under constant appraisal and, over the years, Howard Johnson's architectural format has changed to meet the desires of the steadily growing number of travelers who select our restaurants.

In 1963 we introduced for experimentation a new luxury-type restaurant interior for restaurant-motor lodge installations. This year a modified version has been put into operation in carefully selected locations.

This interior developed by our architectural and decorating departments is a dramatic departure from the traditional "Howard Johnson's." It is all new; from the fountain, which has become a modernized version of the old fashioned ice cream parlor complete with simulated marble-topped counter, to the dining room with its beamed, cathedral ceiling. The dining room has separate identity from the dairy bar, presenting an atmosphere for more gracious dining. The basic floor plan has been changed as well. In the new design, the main entrance to the restaurant opens onto a lobby lounge where waiting guests can be accommodated in comfort. This extra space also helps eliminate congestion around the cashier's counter which sometimes occurs during busy periods. Restrooms, previously located at the rear of the restaurant, are placed up front in the lobby area for easy accessability and to reduce guest traffic in the service area.

in all phases of the Company's operations.

You could be next!
Bond

Motor Lodge Division

A MILESTONE — OUR 200th IN 1964

The accelerated growth of this division during 1964 resulted in the opening of 45 new motor lodges — 44 licensee and 1 company-operated — compared with the previous year's record of 29. Other milestones were reached with the opening of the 200th licensed motor lodge in Dallas, Texas and groundbreaking in late 1964 for a motor lodge in Anaheim, California. A total of 210 motor lodges were in operation at year's end. As of December 31, 1964, there were 28 lodges under construction. During 1964 three motor lodge affiliations with Howard Johnson's were terminated.

For the first time, the Company undertook the operation of a motor lodge. A 56-room Howard Johnson's Motor Lodge was opened in Clearwater, Florida in October 1964 and is being operated by the Company under a lease agreement. Similar arrangements have been made for 1965 with the opening of another Company-operated motor lodge in Melbourne, Florida in January 1965 and one under construction in Lake City, Florida.

Howard Johnson's Motor Lodges now offer travelers in excess of 16,000 rooms in 31 states and the District of Columbia, representing an increase of over 3,500 rooms over last year.

High-rise motor lodges are under construction in such large metropolitan areas as Detroit, Michigan and Cleveland, Ohio. Additional high-rises are planned for 1965.

Location experts continue to evaluate quality sites based not only on population and accessability to new inter-state highway systems but for local industrial growth potentials.

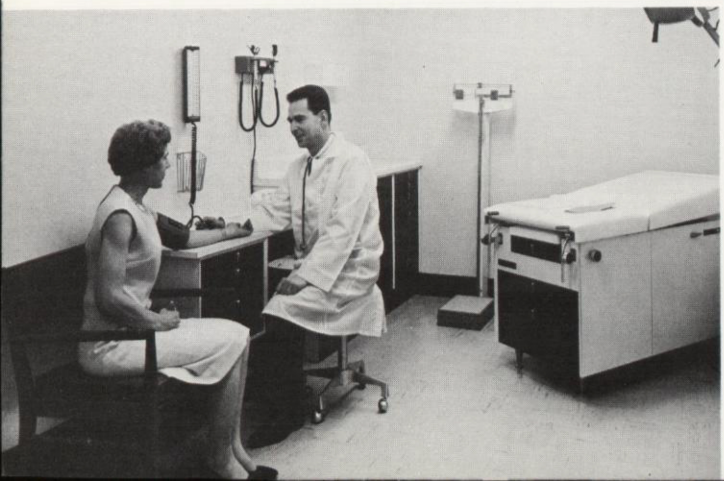
An architectural innovation was developed for a mid-western motor lodge. This new concept, a passageway connecting the gate lodge to the restaurant, enables guests to go from their rooms to the restaurant without going outdoors. Meeting rooms and cocktail lounge are also accessible through this connection. The architectural identities of both restaurant and gate lodge were maintained.

The Architectural and Design Division made improvements or innovations in 28 items in the specifications for lodge rooms, a part of the continuing program of development and research necessary to keep our rooms ahead of the competition in guest appeal and quality. Continuous research in design and construction is necessary if our accommodations are to maintain their image as the "rooms of tomorrow" and to avoid obsolescense which quickly occurs in the hospitality industry.

A definite program has been established with the licensees for upgrading and refurnishing all facilities on an "as needed" basis to maintain the standards we established with the opening of the first motor lodge in Savannah, Georgia 10 years ago.

A significant development was the Managers' Seminar held in each region last year. These seminars were directed to the managers who actually assume the day to day responsibilities of motor lodge operations. During a two day period, a program of instruction, training and development was carried out by Company executives, from all operating divisions of the Company. This type of seminar will be repeated during 1965.

Attention to employee welfare, training seminars, quality products, modern warehouse techniques,



The year 1964 has seen the continuing development of the close relationship with our licensee operators. Their awareness of the importance of sustaining our national image, and the necessity of every operator to uphold our standards is more thoroughly understood. Much of this can be attributed to our annual conference and an improved format for the semi-annual regional meetings of operators.

RRS — A Progress Report

Rapid Reservation Service (RRS), an industry "first" in advance guest registration systems, has now been installed in all Howard Johnson's Motor Lodges.

The response to this innovation by the general public has been excellent. Compared with the previous system, RRS is producing a substantially greater number of reservations. While the surge of reservations was anticipated during peak months, it was gratifying to see how well this volume was sustained throughout the fall and winter seasons when traveling decreased.

The person-to-person contact between guest and host made possible by RRS emphasizes the personalized service that has always been identified with Howard Johnson's as "Host of the Highways".

The second phase of RRS, installation in restaurants, is still in the testing stage and a pilot program involving a number of restaurants is in operation. An analysis of RRS calls made through these restaurants indicates that RRS in selected highway locations could generate increased reservations in the motor lodges. We will continue to study and evaluate the program.

"ORANGE ROOFS" — COAST TO COAST

Just a year ago Howard Johnson's took an initial step west of the Rockies by opening a Los Angeles office to explore the opportunity to sell our hospitality services in this densely-populated, rapidly growing market.

During the year, negotiations for 7 restaurants and 3 motor lodges in the Southern California area were completed. Of the 7 restaurants, 4 will be Company-operated.

Distribution warehouse space has been leased in a centrally located area to service the new installations.

Our California management team was strengthened during the year with the addition of a resident architect, a real estate specialist and a vice president in charge of operations.

ANNUAL RESTAURANT AND MOTOR LODGE CONFERENCE

More than 350 restaurant and motor lodge licensee operators from all regions met with Company executives during a 3-day session held in New York City, April 21–23. Educational and operational exhibits coupled with "shirt sleeve" workshops and combined business meetings composed the second annual Restaurant and Motor Lodge Conference.

Firmly established as another valuable means of communications with our operators, the next annual conference is planned for September, 1965 and is scheduled to be held in White Sulphur Springs, West Virginia.

and public relations contribute to the continually growing popular acceptance of Howard Johnson's.

Advertising and Promotion

The Company substantially increased its national advertising budget, the "umbrella" covering our products, restaurants, and motor lodges. The Howard Johnson's quality image was projected to millions of readers who were exposed to our advertising in widely-circulated national publications. The "orange roofs" appeared monthly on eye-catching, full page, 4-color advertisements in these magazines whose distribution heavily penetrated our regional markets.

As in the past, licensee restaurant operators continued to contribute, on a voluntary basis, to the Company's Business Development Fund. This money was added to the Company's budget for consumer advertising and, in part, for the development of promotional and educational materials.

The legendary Red Coach chef continued his search for the finest of beef and seafood in Red Coach Grills' color advertisements in selective, national publications circulated among people who desire the "best". Each unit employed local newspaper advertising to promote popular Red Coach entrees, and distinctive outdoor billboards conveyed the Red Coach quality image.

For the first time, a separate advertising program was designed to meet the needs of our wholesale operation. Two market areas were covered, all of New England and Metropolitan New York. Package identification and availability of products and prepacked ice cream in grocery stores and supermarkets were strongly emphasized. A variety of media was used to promote our distinctive products. Television commercials, 2-color newspaper advertising and full page 4-color advertisements in regional editions of a popular women's magazine "sold" our line of products. Our wholesale message was also merchandised through trade advertising in both marketing areas.

This concentrated coverage resulted in building demand in existing outlets as well as increasing our distribution. This market by market approach will continue with new programs planned in the Midwest and Southern sections of the country.

Billboards are one of Howard Johnson's most effective means for directing highway travelers to our establishments. A Company specialist continues to devote his entire efforts to the selection of locations as well as controlling the standards of our instantly recognized designs. Our outdoor program is under the constant surveillance of division supervisors to insure that our highway image is maintained.

Reaching our Prime Market

In 1965 we will increase the quantity of our Restaurant and Motor Lodge Directories to the printing of 2½ million copies. The Winter-Spring edition will be in distribution in February; the Fall and Winter issue will be in circulation by late summer. These valuable directories are distributed — free of charge — through all our restaurants and motor lodges. There is also a constant demand from major oil companies to include our directories in their tour guide folders.

Public Relations

A pioneer in the public relations business once described this field as "living right and getting credit for it". This year we made a more concerted effort to expand our already favorable image.

As a result, more media devoted more space and time to Howard Johnson's than ever before. Our story was told from coast to coast in the press, radio and television. From national magazines to rural weeklies, hundreds of publications printed news from Howard Johnson's.

Local radio and television stations across the country carried Howard Johnson's housekeeping and cooking features and in many instances requested more.

Publicity-minded licensee operators reported newsworthy events to their local news outlets and as a result, Howard Johnson's coverage on the community level increased.

"Howard Johnson's Travel Fair", a 124-page book containing tips on trips for family travel, was written and will be published in cooperation with a well-known publishing company. Scheduled for publication in the spring of 1965, this unique volume will be retailed by our restaurants and motor lodges as well as in book stores across the country. The book will provide us with another means of reaching our prime market, people on the move, and should be an excellent public relations tool.

HOWARD JOHNSON'S
NO PARKING

HOWARD JOHNSON'S
New England Style
Clam Chowder
CONCENTRATED

Red Coach
17 19
555
Red Coach Grill
Red Coach

Howard B. Johnson at construction site of 17th Red Coach Grill in Philadelphia located on the ground floor of a new office building.

Red Coach Grill Division

Red Coach Grills, our group of luxury restaurants catering to the "carriage trade", moved to the mid-west in 1964 when the fifteenth unit opened in a motor lodge near Chicago's O'Hare Field Airport. This is the first Red Coach to be established in a Howard Johnson's Motor Lodge.

Red Coach Grills are presently located in Massachusetts, Connecticut, New York, Florida and Illinois.

The division's net profit for 1964 was the highest realized since Red Coach Grills began operations in 1936. The New York City Red Coach, among the smallest in the chain, led all the other units in sales.

The 16th Red Coach, now under construction, will be located on the Penthouse Floor of a Howard Johnson's Motor Lodge in Cleveland, Ohio, overlooking Lake Erie. Anticipated opening date is early summer 1965.

Construction began in late 1964 in Philadelphia for what will be the 17th Red Coach Grill in the chain, with a seating capacity for 395 guests.

In both Cleveland and Philadelphia, our traditional early American decor will be modified to include open hearths in the main dining rooms. Steaks and chops will be broiled, Red Coach fashion, in full view of our guests. This feature was introduced in Chicago and has been extremely successful.

In Cleveland, we will draw on the rich lore of the Great Lakes and incorporate in our decor the flavor of early Naval history with the use of authentic reproductions of paintings and artifacts dealing with that era.

Motor Lodge decor provides relaxed enjoyment for the entire family.

Personnel

Management is aware that personnel development and training is one of the important segments of a service organization such as ours. Employees, both Company and licensee, meet the public every day in Howard Johnson's restaurants and motor lodges. In order to maintain the high standards of service we have established, comprehensive and continuing training programs are essential and must be carried out at all levels.

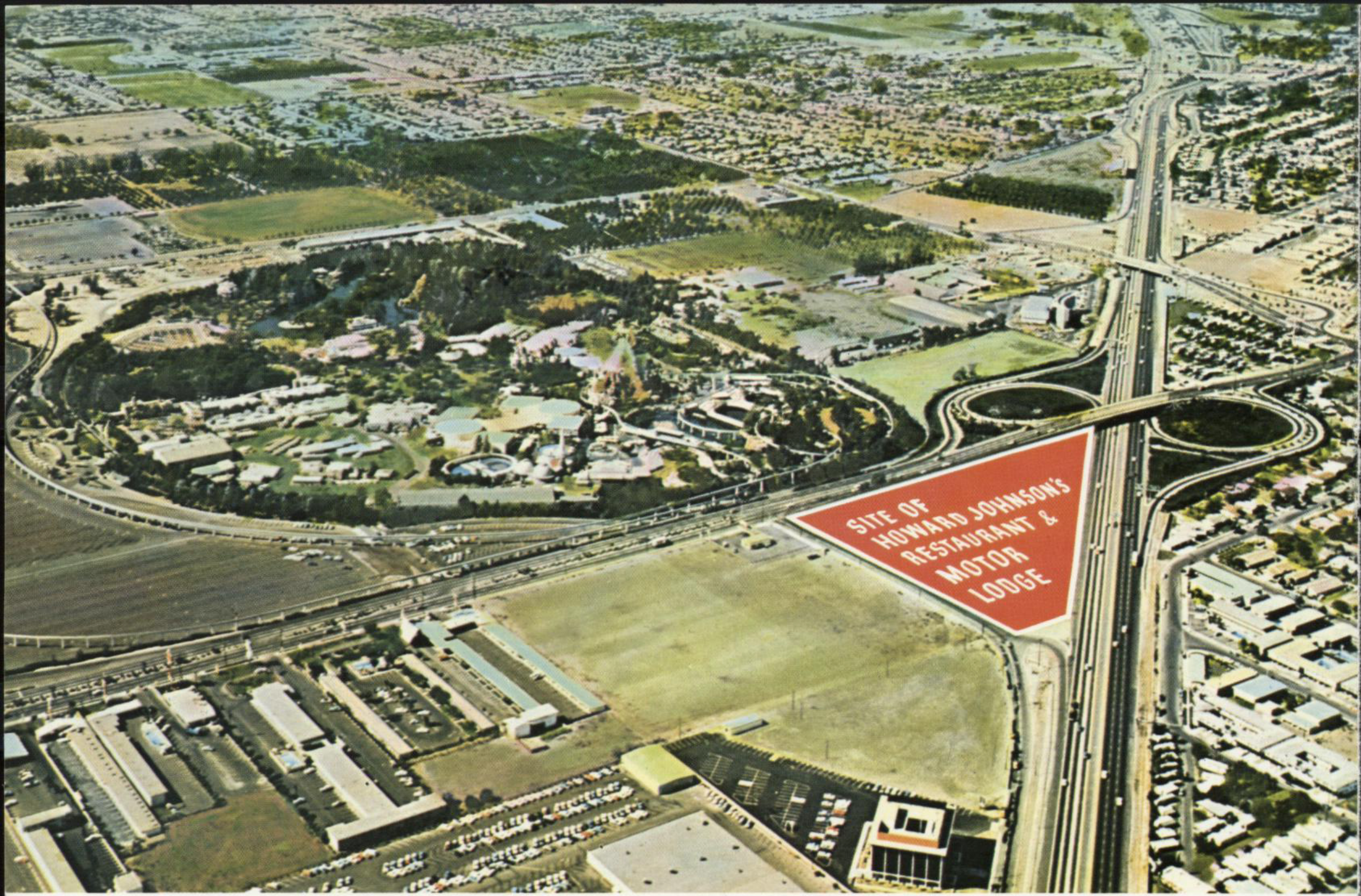
Howard Johnson's personnel specialists, using the latest in audio-visual training aids, work with service personnel in regularly scheduled instruction sessions. Heavy emphasis is placed on appearance and attitude in serving our guests.

Supervisory personnel in motor lodges and restaurants participated in management development programs held by top Howard Johnson's executives. An important part of the series of seminars was devoted to operational procedures and management techniques.

"This is Howard Johnson's," a half-hour color film produced by the Company during the early part of the year, was shown to employees throughout the chain in a series of "Know Your Company" educational meetings open to both licensee and Company personnel. Documentary in nature, the film embraces all phases of the Company's operation.

We are grateful to our 15,000 Company employees for their loyal support which has contributed greatly to our success over the years. One of the most recent developments for recognition of deserving employees is the "Spotlight on You" program initiated in 1964. This program highlights acts of outstanding service on the part of Howard Johnson's employees all over the country. A total of nine "Spotlight" awards and 452 nominations were made. Winners were featured in 2-color ads which appeared in regional editions of a national magazine and, in addition, received $1,000 Bonds. All nominees were presented with a 14-carat gold "Spotlight" pin.

Looking to the future and the constantly growing need for additional qualified personnel in our industry, the Company made contributions in support of scholarship programs in 15 colleges and 3 vocational schools offering courses in restaurant management and hotel administration.


SITE OF
HOWARD JOHNSON'S
RESTAURANT &
MOTOR
LODGE

First West coast installation — motor lodge and restaurant — to open in 1965 in Anaheim, California located across from world famous Disneyland.

Howard Johnson's
HOME MADE ICE CREAM
Chocolate Strawberry
Pistachio Lemon
Macaroon Ginger
Maple Nut Fruit Custard
Grape Nut Caramel
Banana Cherry
Peach Orange

A look into the past. One of the first local roadside ice cream outlets later to become "Host of the Highways".

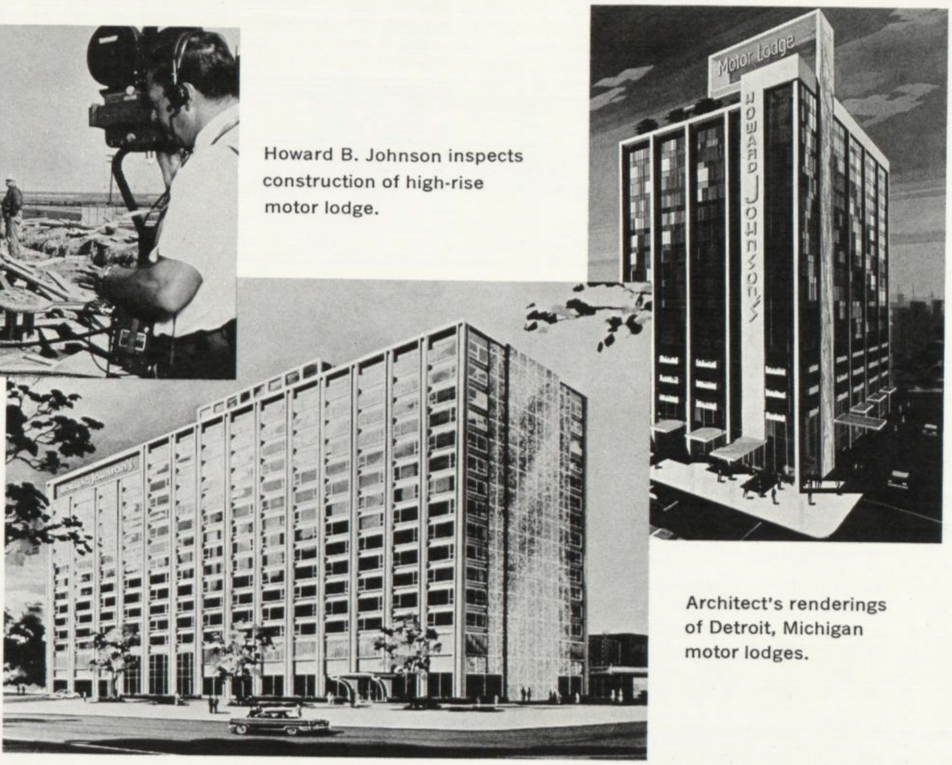
MASSACHUSETTS HELICOPTER AIRLINES

Heliports, a jet age innovation, provide additional convenience for business travelers.

CONCORD, MASS. Rt.2
CHELMSFORD, MASS. Rt.3
CONCORD, N.H. Rt.3
PORTSMOUTH, N.H. Rt.1
Rapid Reservation Service
HOWARD JOHNSON'S
MOTOR LODGE

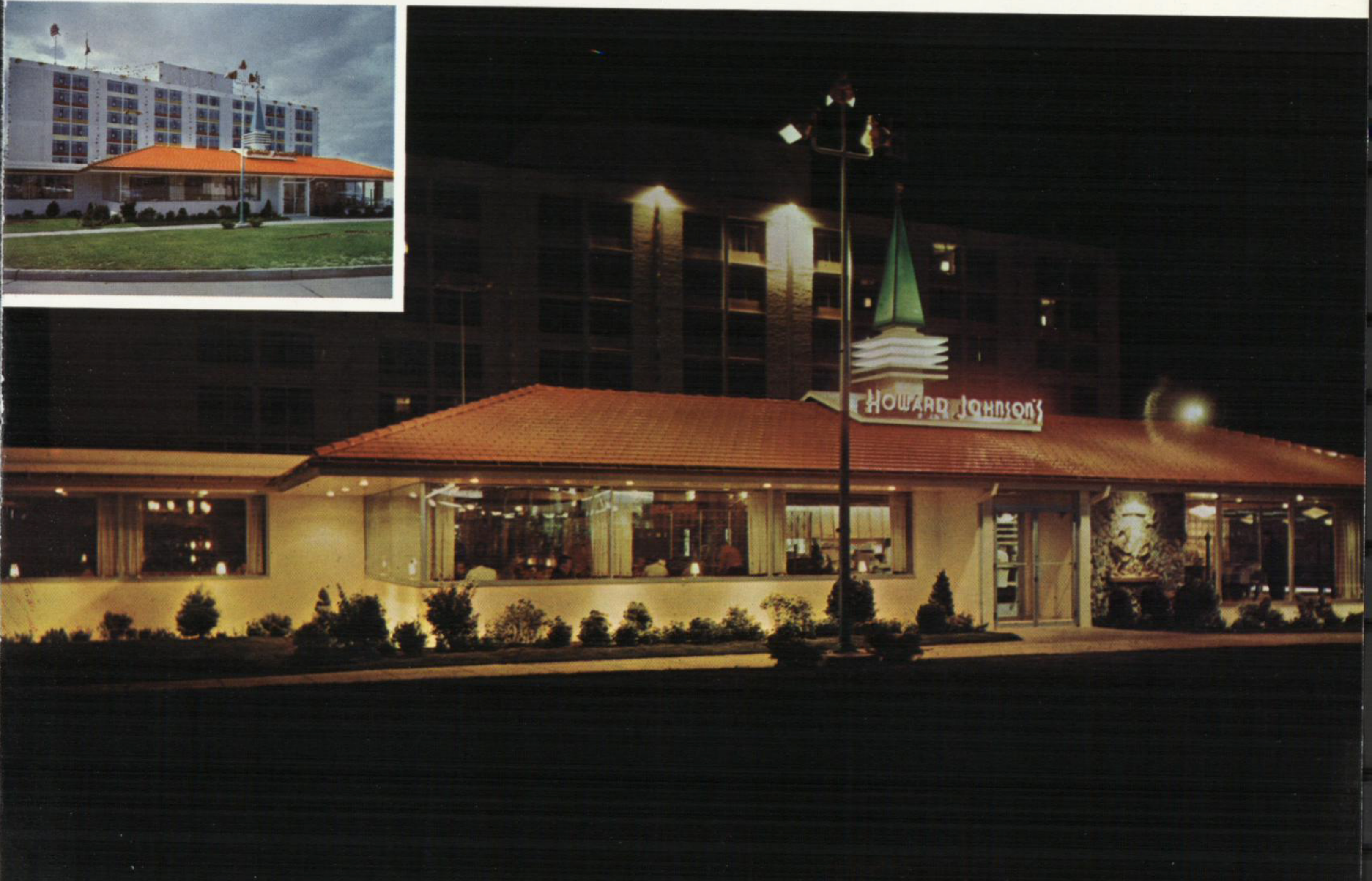
Another service, RRS in restaurants, for easy advance motor lodge reservations.

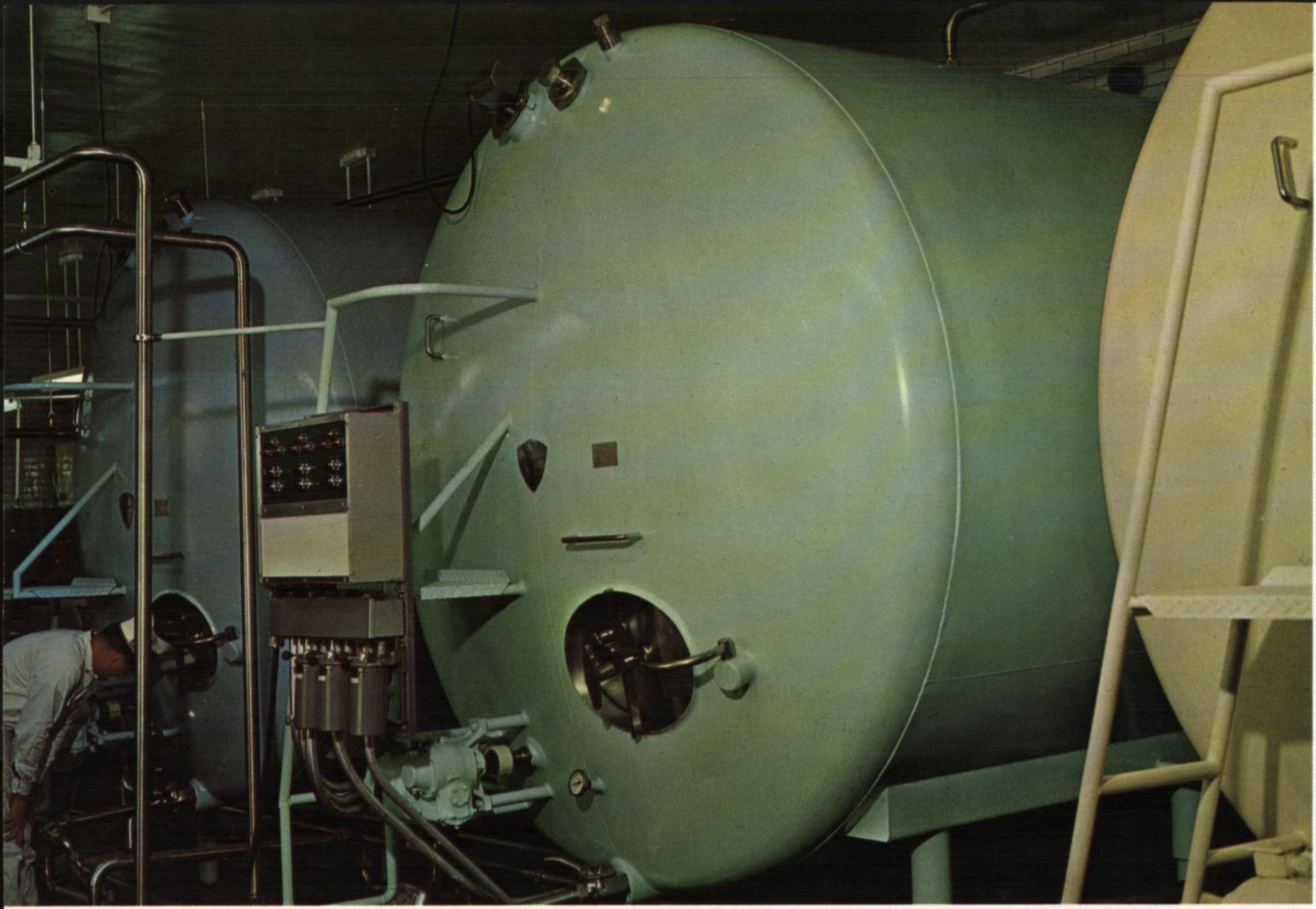
Howard B. Johnson inspects construction of high-rise motor lodge.


Motor Lodge
HOWARD JOHNSON'S

Architect's renderings of Detroit, Michigan motor lodges.

700th restaurant in Wheaton Plaza, Maryland adjacent to Howard Johnson's multi-story motor lodge.


HOWARD JOHNSON'S



Chicago's 4,000 gallon holding tanks for receiving and storage of cream and milk for ice cream processing. Control panel automatically regulates temperature and insures protection.

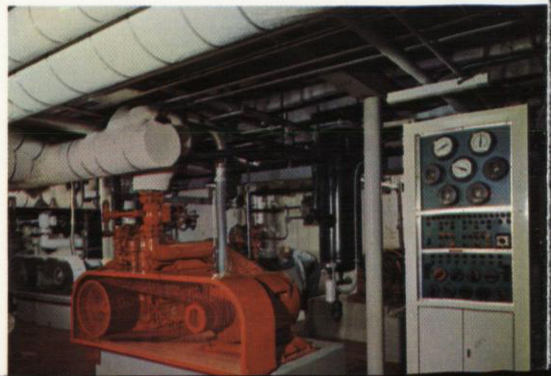
Quality Products – Processing and Distribution

The public hospitality business is a highly competitive one, and in order to maintain its leadership position, Howard Johnson's production and distribution methods and facilities undergo constant evaluation and improvement. Our system of 20 processing plants and distribution depots is maintained at peak efficiency to meet profitably the growing demand for Howard Johnson's products and services.

During 1964, total capacity of three of our ice cream plants was nearly doubled and modifications to key production equipment were made to keep Howard Johnson's ice cream among the leaders in the industry. The program to replace all 300 gallon per hour freezers with 600 gallon per hour units in our plants, was continued.

Freezer storage space in our plants and distribution centers was doubled this year by increasing capacity in Cleveland, Chicago, Stroud, Oklahoma, and Queens Village, Long Island, New York.

Before the end of the year, we completed modernization of our Chicago plant including automation of the refrigeration system, and installation of a C.I.P. (clean in place) system. This system is fully automated and enables one section of the processing equipment to be sterilized while other parts



Close-up view of Chicago's refrigeration control panel in engine room. Any malfunction within the entire system is automatically indicated on the panel.

HOWARD JOHNSON'S

Control Panel (C.I.P.) — clean in place system — and recorder for temperature control of cleaning solutions.

are still in use, thereby increasing our daily production time and permitting more efficient use of equipment and manpower.

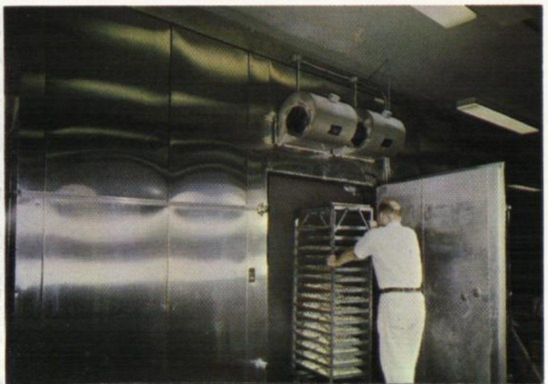
The installation of three, 4,000 gallon storage tanks in Chicago made it possible to receive shipments of cream and milk in tank-truck quantities. The mixing process is now mechanized, enabling us to prepare batches of ice cream mix by simply pressing a button.

Improvement and extension of the use of pallets was made in the Company's warehouses. Palletized material can be handled quickly for receiving and shipping with forklift trucks, reducing the "floor" time of material, and in effect, affording products better protection. Vertical case racks continued to be installed to make use of the normally "dead" space taken up with the height of the warehouse and thereby increase the overall efficiency.

A Pioneer

More than 15 years ago, Howard Johnson's pioneered a system of servicing restaurants with frozen entrees, bakery items and other products. The success of this operation has been one of the key factors which made possible our rapid, but sound, expansion. Management's command of quality, sanitation, portion control and cost have resulted in Howard Johnson's giving maximum value to guests, as well as assuring high standards in food service.

A most important advantage in Howard Johnson's food production and distribution system is the protection it affords our guests. Most processed foods are prepared under careful governmental and Board of Health standards. In addition, outside



Typical refrigeration unit found in our processing plants.

HOWARD
Johnson's
Motor Lodge
Restaurant
COCKTAILS
HOWARD JOHNSON'S

New concept in restaurant and motor lodge design — enclosed passageway from gate lodge to restaurant offering guests protection during inclement weather.

laboratories together with Company food technologists also inspect our day-to-day production. Our laboratories check "batches" of each product to make certain that Howard Johnson's high standards of quality are upheld.

Transportation and Distribution

Rapid growth and plans for future expansion made it necessary to review our distribution system. In order to service our 34-state restaurant network with the hundreds of products which daily flow from our commissaries and distribution points, we must be assured of effective and economical distribution.

As a result, a new transportation and distribution program was inaugurated during 1964. Under the direction of a Company executive, one of the leading experts in this field, a long-range program has been established to upgrade material handling equipment, storage facilities and distribution methods to meet the demands of our growing company.

A new distribution zone was established with the expansion of the Stroud, Oklahoma depot. This enlarged storage and distribution center will make deliveries into Colorado and will include all areas southwest of St. Louis. The new zone will result in faster, more efficient distribution in this area.

We are experimenting, on a limited basis, with the use of cryogenics. We are working with experts in this field to develop an economical, fast-freezing process adaptable to our delivery vehicles. Our study of cryogenics will continue during the coming year together with further study and development of a containerization program and other new approaches to transportation and distribution.

Executive Management Promotions

PARENT COMPANY

WILLIAM McCLELLAND
Assistant Controller
RICHARD P. GENDRON
Assistant Controller
DONALD L. KAHL
Assistant Controller
JOSEPH J. HENNESSEY
Assistant Controller

MOTOR LODGE DIVISION

WALLACE W. LEE, Jr.
Vice President and appointed General Manager
LOWRY M. BELL, Jr.
Vice President-Architecture and Construction
ALBERT R. WADSWORTH
Vice President-Interior Decoration

WHOLESALE DIVISION

HOWARD P. CUMMINGS
Executive Vice President
ROBERT D. PARKS
Executive Vice President
RALPH A. JENKINS
Vice President and appointed National Sales Manager

NEW ENGLAND DIVISION

MONTROSE P. McARDLE
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RAYMOND W. SMITH
Vice President-Transportation and Distribution
RICHARD V. WAKEMAN
Vice President-Real Estate
ALBERT R. WADSWORTH
Vice President-Interior Decoration
RUSSELL T. WARMINGTON
Vice President-Purchasing

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Assistant Vice President-Advertising
HAROLD K. GOTTHELF
Vice President-Purchasing
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Vice President and appointed Director-Atlanta District
ARTHUR F. PAYNE
Controller
KENNETH SEXTON
Vice President and appointed General Manager-Florida Operations
IRVING D. ZALK
Vice President and appointed General Manager-Texas District

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Vice President-Operations
ARTHUR B. KROOG
Vice President-Real Estate
ALVAH J. POTTS
Vice President-Pennsylvania District

MID-ATLANTIC DIVISION

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Executive Vice President
HERMAN S. FAUST
Vice President-Ice Cream Manufacturing
PIERRE FRANEY
Vice President-Executive Chef
RICHARD D. GRAHAM
Vice President-Assistant General Counsel
JOHN E. HIPSON
Vice President-Special Projects
AMERICO IMPERIALI
Vice President-Commissary
CHARLES J. MAYNE
Vice President-Washington District
JOHN W. McCORMICK
Assistant Vice President-Personnel
CHARLES J. PERCIVAL
Vice President and appointed Director-Real Estate
DONALD T. RALEIGH
Vice President and appointed Director-Turnpike Operations
HENRY C. SMITHER
Vice President-New York District

WESTERN DIVISION

HERBERT T. WEBSTER
Vice President-California-Colorado District

RED COACH GRILL DIVISION

JOHN H. TREFRY, Jr.
Assistant Treasurer

HOWARD JOHNSON COMPANY and

assets

	December 31 1964	December 31 1963
Current assets:		
Cash	$ 6,863,358	$ 6,251,583
U. S. Treasury bills and other short-term securities, at cost (approximate market)	7,970,220	5,190,794
Accounts receivable:		
Trade, less allowance for doubtful balances	2,298,050	1,814,480
Other	187,772	190,684
Inventories of merchandise and materials, at average cost or market whichever lower	8,319,195	6,722,768
Prepaid expenses	350,908	412,877
Total current assets	25,989,503	20,583,186
Fixed assets, at cost (excluding fully-depreciated assets):		
Land and land improvements	5,277,970	4,612,714
Buildings owned	4,767,898	4,354,224
Buildings and improvements on leased property	11,483,728	10,057,247
Restaurant and motor lodge equipment	26,762,887	21,682,747
Plant, office and transportation equipment	7,864,333	7,067,012
	56,156,816	47,773,944
Less — Depreciation	22,901,930	19,937,876
	33,254,886	27,836,068
Other assets:		
Cash surrender value of life insurance policies	182,542	162,239
Miscellaneous	795,673	753,815
	978,215	916,054
	$60,222,604	$49,335,308

subsidiaries...consolidated balance sheet

liabilities and capital

	December 31 1964	 1963
Current liabilities:		
Notes payable — portion due within one year (Note B)	$ 1,678,943	$ 786,908
Accounts payable	3,935,798	4,733,889
Accrued expenses	2,649,574	2,412,334
Federal income taxes	4,776,418	3,470,281
Total current liabilities	13,040,733	11,403,412
Notes payable — portion due after one year (Note B)	3,292,061	1,838,299
Deferred federal income taxes (Note D)	—	258,000
Capital and retained earnings (Note C):		
Common stock, par value $1 per share: Authorized — 3,250,000 shares Issued — 1,131,323 shares in 1964, 1,096,558 in 1963	1,131,323	1,096,558
Common stock B, par value $1 per share: Authorized — 1,477,000 shares Issued — 1,172,531 shares in 1964, 1,149,540 in 1963	1,172,531	1,149,540
Capital Surplus (Note E)	4,919,982	1,920,876
Retained earnings	36,665,974	31,668,623
	43,889,810	35,835,597
Lease commitments (Note F)		
	$60,222,604	$49,335,308

HOWARD JOHNSON COMPANY *and subsidiaries*

consolidated statement of income and retained earnings

	Year ended December 31	
	1964	1963
Income:		
Net sales	$148,614,464	$124,315,532
Licensing and other income	3,812,802	2,650,034
Gain on disposals of fixed assets	371,185	140,006
Total income	152,798,451	127,105,572
Costs and expenses:		
Cost of sales and manufacturing, warehousing and transportation expenses, excluding depreciation	64,677,018	55,392,571
Selling, restaurant and motor lodge operating, administrative and general expenses, excluding depreciation	69,290,799	57,131,479
Depreciation of fixed assets	4,529,683	3,514,826
Interest	222,106	124,878
Total costs and expenses	138,719,606	116,163,754
Income before federal income taxes	14,078,845	10,941,818
Provision for federal income taxes (Note D)	6,470,000	5,550,000
Net income	7,608,845	5,391,818
Retained earnings at beginning of year	31,668,623	28,169,536
Market value of 21,965 shares of common stock (21,477 shares in 1963) and 22,991 shares of common stock B (22,540 shares in 1963) issued as 2% stock dividends	(2,611,494)	(1,892,731)
Retained earnings at end of year	$ 36,665,974	$ 31,668,623

opinion of independent accountants

To the Board of Directors and Stockholders of Howard Johnson Company

In our opinion, the accompanying balance sheet, the related statement of income and retained earnings and the statement of source and application of funds present fairly the consolidated financial position of Howard Johnson Company and subsidiaries at December 31, 1964, the results of their operations and the supplementary information on funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Boston, Massachusetts
February 23, 1965

notes to financial statements

Note A — Basis of Consolidation
The accompanying consolidated financial statements include the accounts of Howard Johnson Company and its subsidiaries, all of which are wholly owned.

Note B — Notes Payable
At December 31, 1964 the companies were obligated under notes payable summarized as follows:

	Portion due	
	Within one year	After one year
Notes payable to banks, 4½% to 5%, unsecured	$1,036,000	$1,537,500
Real estate and chattel mortgages, mostly at 4½% to 6%	343,743	1,312,796
Sinking fund notes, 2½%, unsecured	119,000	37,000
Other	180,200	404,765
Totals	$1,678,943	$3,292,061

The aggregate amounts which mature in each of the years 1965 to 1969, inclusive, for the indebtedness summarized above are $1,678,943, $1,271,470, $952,794, $500,961 and $162,384, respectively.

Note C — Capital Stock and Stock Options
The two classes of common stock of Howard Johnson Company are subject to certain rights and restrictions as to dividends, voting, conversion, etc. Dividend rights and restrictions provide that dividends other than in shares of the company's common stock or common stock B may be declared and paid on common stock without similar declarations and payments on the common stock B. If a dividend is declared and paid on common stock B, a dividend of the same kind and at no lesser rate per share must be declared and paid on the common stock. All or part of the outstanding shares of common stock B may be converted into shares of common stock, on a share for share basis, by the affirmative vote of the holders of a majority of the outstanding shares of common stock B. Of the 2,118,677 authorized and unissued shares of common stock as at December 31, 1964, 1,172,531 shares were reserved for the conversion of the issued shares of common stock B and 115,077 shares were reserved for the stock options referred to in the following paragraphs.

At the beginning of 1964 options to purchase 69,146 shares of the company's common stock were held by executives and key employees of the company and its subsidiaries. During 1964 options for 12,800 shares were exercised, and additional options were granted to purchase 18,750 shares, of which 200 subsequently lapsed.

At the end of 1964 options for 76,221 shares were outstanding as follows (shares and prices adjusted, where necessary, to give effect to the 2% stock dividend paid during 1964):

Date granted	Expiration date	Option price per share	Total shares under options outstanding at Dec. 31, 1964
May 1961	May 1968	$34.70 — 34.81	57,671
May 1964	May 1969	58.38	16,550
October 1964	October 1969	66.75	2,000
			76,221

All of the options granted in May 1961 were exercisable at December 31, 1964. As to the options granted in 1964, options for 40% of the optioned shares may be exercised after one year from the date granted, an additional 30% after two years and the remainder after three years.

Under the terms of the plan, as amended in 1964, additional options for 38,856 shares may be granted at prices no less than 100% of the fair market value of the common stock at the date of grant. Such options expire not more than five years after the date granted.

Note D — Investment Tax Credit
Due to 1964 revisions of the Internal Revenue Code, 100% (1963 — 48%) of the investment tax credit for 1964 of approximately $450,000 is included in net income as a reduction of the provision for federal income taxes. The remaining deferred federal income taxes of $258,000 relating to the investment tax credits for 1962 and 1963 have been retained as part of the current accrual for federal income taxes, to provide for additional tax liabilities that may arise relating to prior years.

Note E — Capital Surplus
Capital surplus increased during the year by $2,566,538, representing the excess of the market value over the par value of 44,956 shares of capital stock issued as stock dividends, and by $432,568, representing the excess of the proceeds over the par value of 12,800 shares issued for stock options exercised during the year.

Note F — Lease Commitments
At December 31, 1964 several of the companies were directly obligated under long-term leases, most of which expire in various years to 1984. The aggregate of the minimum annual rentals under these leases (exclusive of taxes, insurance and other expenses to be paid by the lessee) is approximately $5,150,000. The aggregate amount of all rentals charged to income in 1964 was approximately $11,050,000, including, in addition to rentals of the nature described above, real estate rentals based on a percentage of sales and rentals of real estate, trucks and equipment under short-term lease arrangements.

Several of the companies were also contingently obligated under leases, most of which expire in various years to 1984, relating to properties occupied by interests other than the companies included in the consolidated financial statements. The aggregate of the minimum annual rentals under these leases is approximately $760,000.

consolidated statement of source and application of funds year ended December 31, 1964

Source of funds:	
Operations:	
Net income	$ 7,608,845
Depreciation of fixed assets	4,529,683
Gain on disposals of fixed assets, etc.	(433,346)
Total from operations	11,705,182
Proceeds from disposals of fixed assets	1,020,198
Increase in non-current notes payable	1,453,762
Proceeds from sales of common stock under employee stock option plan	445,368
	14,624,510
Application:	
Additions to fixed assets	10,597,514
Deferred federal income taxes	258,000
	10,855,514
Difference, representing increase in working capital	$ 3,768,996

HOWARD JOHNSON COMPANY *and subsidiaries*

10 years of progress

	1964	1963
Income:		
Net sales	$148,614,464	$124,315,532
Licensing and other income	3,812,802*	2,650,034
Gain on disposals of fixed assets	371,185	140,006
Total income	$152,798,451	$127,105,572
Costs and expenses:		
Cost of sales and manufacturing, warehousing and transportation expenses, excluding depreciation	$ 64,677,018	$ 55,392,571
Selling, restaurant and motor lodge operating, administrative and general expenses, excluding depreciation	69,290,799	57,131,479
Depreciation of fixed assets	4,529,683	3,514,826
Interest	222,106	124,878
Cash dividends paid on, and premiums on retirement of, preferred stock of a subsidiary	—	—
Total costs and expenses	$138,719,606	$116,163,754
Income before federal income taxes	$ 14,078,845	$ 10,941,818
Provision for federal income taxes (Note D)	6,470,000	5,550,000
Net income	$ 7,608,845	$ 5,391,818
Net income per share**	$3.30	$2.35

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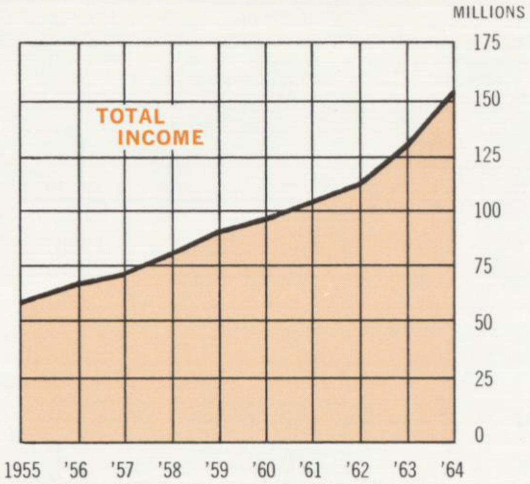
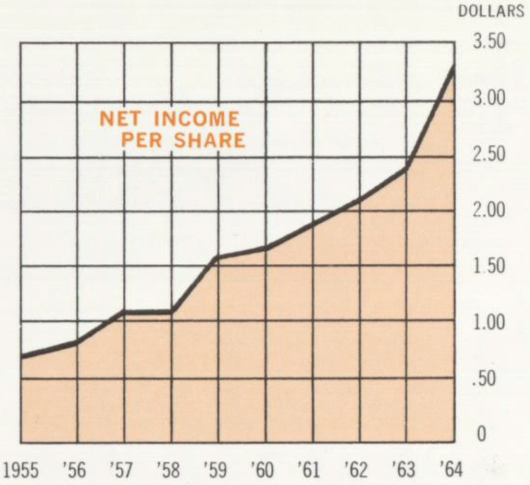
*Licensing and other income for the year 1964 includes $312,000 relating to an item of non-recurring income.

**Net income per share based on the number of shares outstanding at the end of the year, adjusted for subsequent stock dividends.





Year ended December 31

1962	1961	1960	1959	1958	1957	1956	1955
$111,106,275	$100,541,522	$95,006,944	$89,282,634	$79,661,952	$72,995,014	$66,217,949	$56,592,212
2,290,476	1,702,852	1,504,900	998,626	770,487	506,831	432,530	346,140
79,741	137,245	287,111	14,842	160,514	495,681	53,197	97,446
$113,476,492	$102,381,619	$96,798,955	$90,296,102	$80,592,953	$73,997,526	$66,703,676	$57,035,798
$ 51,458,645	$ 46,844,631	$44,526,255	$42,120,387	$38,827,022	$36,004,499	$33,134,264	$28,271,388
49,754,411	44,301,184	42,021,766	38,228,645	34,517,361	31,069,434	27,694,617	23,691,809
3,069,472	2,825,973	2,622,722	2,422,542	2,305,577	2,192,597	1,947,516	1,671,174
160,306	196,816	223,219	228,661	278,424	256,300	217,644	183,113
—	—	21,445	13,244	17,010	14,480	15,620	16,000
$104,442,834	$ 94,168,604	$89,415,407	$83,013,479	$75,945,394	$69,537,310	$63,009,661	$53,833,484
$ 9,033,658	$ 8,213,015	$ 7,383,548	$ 7,282,623	$ 4,647,559	$ 4,460,216	$ 3,694,015	$ 3,202,314
4,430,000	4,120,000	3,655,539	3,701,438	2,332,090	2,137,523	1,836,805	1,631,238
$ 4,603,658	$ 4,093,015	$ 3,728,009	$ 3,581,185	$ 2,315,469	$ 2,322,693	$ 1,857,210	$ 1,571,076
$2.01	$1.79	$1.63	$1.56	$1.01	$1.01	$.81	$.69

Howard Johnson Company

directors

Howard B. Johnson, President
Eugene J. Durgin, Vice President and Secretary
Charles M. Enders, Partner of F. S. Moseley & Co., New York, New York
William J. Martin, Chairman of the Board—South Shore National Bank, Quincy, Massachusetts
Fred Smith, Consultant to Laurance S. Rockefeller

executive officers

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President

Eugene J. Durgin
Vice President, Secretary and General Counsel

John H. Wyllie
Vice President and Treasurer

Pierre Franey
Vice President in Charge of Food Research and Quality Control

Fredrich H. Thomforde
Vice President in Charge of a Division

J. William Weeks
Vice President

Americo Imperiali
Vice President
in Charge of the N. Y. Food Commissary

Merlin A. Perkins
Assistant Treasurer and Controller

Joseph V. Cronin
Assistant Secretary

subsidiary officers

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Vice President & Treasurer
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Vice President
Kenneth Sexton
Vice President
Richard C. Myers
Vice President
Irving D. Zalk
Vice President
Harold K. Gotthelf
Vice President
Joseph L. Delaney
Asst. Vice President
Arthur F. Payne
Controller

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Vice President
Herbert T. Webster
Vice President

RED COACH GRILL DIVISION

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Charles R. Goodale
Vice President
John H. Trefry, Jr.
Asst. Treasurer

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John E. Hipson
Vice President
Pierre Franey
Vice President
Charles J. Mayne
Vice President
Charles J. Percival
Vice President
Richard D. Graham
Vice President
Americo Imperiali
Vice President
Herman S. Faust
Vice President
Henry C. Smither
Vice President
Donald T. Raleigh
Vice President
John W. McCormick
Asst. Vice President

MID-WESTERN DIVISION

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President
Francis M. Barrett
Vice President
Arthur B. Kroog
Vice President
Charles M. Hommel
Vice President
Alvah J. Potts
Vice President

NEW ENGLAND DIVISION

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Vice President
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Vice President
Joseph A. Cicco
Vice President
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Vice President
Montrose P. McArdle
Vice President
Raymond W. Smith
Vice President
Russell T. Warmington
Vice President
Richard V. Wakeman
Vice President
Albert R. Wadsworth
Vice President

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Wallace W. Lee, Jr.
Vice President
Lowry M. Bell, Jr.
Vice President
Albert R. Wadsworth
Vice President

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Executive Vice President
Robert D. Parks
Executive Vice President
Ralph A. Jenkins
Vice President

*Members of the Executive Operations Committee

COUNSEL

Herrick, Smith, Donald, Farley & Ketchum,
Boston, Massachusetts

AUDITORS

Price Waterhouse & Co., Boston, Massachusetts

TRANSFER AGENTS

Old Colony Trust Company, Boston, Massachusetts
The Chase Manhattan Bank, New York, New York

REGISTRARS

The First National Bank of Boston, Boston, Massachusetts
Manufacturers Hanover Trust Company, New York, New York

The annual meeting of stockholders will take place at 11:00 A.M. Monday, April 26, 1965 at the Howard Johnson Company offices, 89 Beale Street, Wollaston, Massachusetts.

Howard Johnson Company
89 Beale Street, Wollaston 70, Massachusetts

other offices

45 Rockefeller Plaza, New York, New York
95-25 Queens Boulevard, Rego Park, New York
1415 Biscayne Boulevard, Miami, Florida
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